



The City of San Diego

# MANAGER'S REPORT

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SAN DIEGO, CA

DATE ISSUED: May 10, 1995

REPORT NO. 95-86

ATTENTION : City Council Meeting of May 15, 1995

SUBJECT : San Diego Jack Murphy Stadium

## SUMMARY

### Issue:

- (1) Should the City Council approve the 1995 amended agreement for the partial use and occupancy of the San Diego Jack Murphy Stadium with the Chargers Football Company to extend the Chargers lease to play football in San Diego until 2020 and a new agreement for the use and occupancy of a new Chargers' Training Facility?
- (2) Should the City Council authorize the 1995 Agreement for the partial use and occupancy of the skybox areas at the San Diego Jack Murphy Stadium with the Charger Associates?
- (3) Should the City Council authorize the City Manager to take the necessary steps to proceed with the implementation of \$60 million of improvements to the San Diego Jack Murphy Stadium and related facilities?
- (4) Should the City Manager be authorized to renegotiate agreements with Service America for concession and catering services and Ace Parking for parking and other related services at the Stadium?
- (5) Should the City Council authorize the City Manager to enter into negotiations with the San Diego International Sports Council regarding their role in providing a ticket guarantee?

0-18182

Manager's Recommendation:

- (1) Authorize the agreements.
- (2) Authorize the agreement.
- (3) Authorize the City Manager to take the necessary steps to proceed with the implementation of \$60 million in Stadium and related improvements.
- (4) Authorize the City Manager to renegotiate agreements with Service America and Ace Parking.
- (5) Authorize the City Manager to enter into negotiations with the San Diego International Sports Council.

Other Recommendations:

The Stadium Authority provided conceptual approval to the amended agreement for the partial use and occupancy of the San Diego Jack Murphy Stadium with the Chargers Football Company.

Fiscal Impact:

The agreement with the Chargers will provide for an increase in annual payments of \$1.1 million in FY 1998 (over 1996 season projections), the first year after capital improvements are in place.

Annual debt service for \$60 million of improvements is projected to be approximately \$7 million to be paid by increased revenues from the tenants at the Stadium.

## **BACKGROUND**

The Chargers Football Company (the "Chargers") are the owners of a professional football franchise in the National Football League and are currently utilizing the Stadium in accordance with an agreement for partial use and occupancy originally dated March 17, 1966. The original agreement was modified in 1969, 1974, 1980, 1983, 1984 and 1988. The City Manager entered into discussions in July, 1994 at the request of the Chargers. Those discussions have continued through February 1995 with the Manager negotiating

on the basis of direction provided by the City Council.

Public Financial Management (PFM) was hired by the City Manager in August, 1994 to provide financial advisory services with respect to the negotiations with the Chargers. PFM prepared cash flow projections based on the current agreement and the proposed agreement to quantify the impact to all parties (specifically the City, Chargers and Padres) of changes to the agreement. PFM also provided NFL industry information on practices and standards for business relationships among NFL franchises and stadium operators. PFM's services included a review of all information pertaining to the Chargers negotiations and preparation of analyses of the negotiations under various conditions.

## DISCUSSION

The Stadium was built in 1967 with \$27 million in bonds issued by the City and the Stadium Authority. These bonds have been refinanced and will be retired in 1998. This will free up \$2.5 million in debt service capacity which can be used to make payments on the new bonds.

There are two important reasons for this recommendation. First, professional sports franchises have generated tremendous competition among cities to attract and retain franchises in major sports leagues. Several cities, such as Baltimore, St. Louis and St. Petersburg, have built or are building stadiums to attract teams. These cities are offering rent free use of modern, state of the art stadiums.

Secondly, the Stadium requires certain improvements to continue to be a competitive facility. If these improvements can be paid by increases in rental revenues and user fees not impacting the General Fund, then the City will maintain its competitive advantage.

The agreement between the Chargers and the City extends the current agreement from 2003 to 2020, and includes the following major changes:

- Improvements: The City will construct \$60 million in Stadium improvements, as approved by the Chargers and Padres. Improvements include:
  - Expanding seating capacity from 60,818 to approximately 71,400
  - Providing 7,800 Club Seats at the Loge Level
  - Increasing the number of Skyboxes from 79 to 105
  - Installing two new scoreboards
  - Building a new off-site training facility

- Rent: For use and occupancy of the Stadium, the Chargers will pay the City 10% of gross income.
- Ticket Guarantee: The Chargers will receive a City guarantee for 10 years of 60,000 general admission seats at face ticket prices for pre-season and regular season games. The San Diego International Sports Council has agreed to ensure that the ticket guarantee is fulfilled. In the increasingly competitive sports environment, this has become an increasingly important benefit to franchises.
- Reopening Rights: After 2003, the Chargers will have an option once every four years to reopen this agreement if player salaries substantially exceed certain milestones. If the Chargers exercise the right to reopen the agreement, the City and Chargers will attempt to negotiate changes to the agreement. The City has the right of first refusal. If the City does not exercise its right, the Chargers have the option to terminate the agreement. If the agreement is terminated, the Chargers are obligated to pay the City 60% of the unpaid principal balance of the City's debt issued to pay for improvements.
- Stadium Improvement Payments: A parking user fee of an additional \$1 per vehicle in the 1998 and 1999 football season and an additional \$1 per vehicle in the 2000 football season and thereafter would be dedicated for Stadium improvements. In addition, the Chargers will pay to the City the equivalent of \$.75 per ticket in the 1996 football season and \$1.50 per ticket in the 1997 football season and thereafter, until the debt is paid off, to the Stadium Fund to service the debt for Stadium improvements.

### Stadium Financing

The Tax Reform Act of 1986 restricts the use of tax-exempt bonds to finance sports facilities. Taxable bonds can be issued but sell at higher interest rates than tax-exempt bonds. Assuming improvements were amortized over a 30 year term, the annual debt service to fund \$60 million in Stadium improvements, using conservative interest rates, would total approximately \$7 million annually.

In October 1994, the City and the Stadium Authority refunded the 1983 Stadium Bonds. The refunding provided for a shortened maturity financing structure that releases the City from debt service obligations on these bonds (\$2.5 million) at the end of FY 1997. These funds will then be available to pay a portion of the expansion debt service.

The increased rent paid by the Chargers to the City, increased revenues from the other Stadium tenants and events due to the expansion, as well as the \$2.5 million in current bond payments will provide for most of the debt service required to fund \$60 million in Stadium improvements. In addition, any percentage increase in concessions revenue

from contract negotiations with Service America will also be dedicated to pay for the improvements.

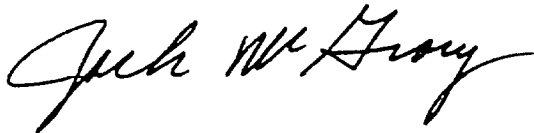
## CONCLUSION

To be a competitive City in the national professional sports scene, the City Manager recommends that these improvements be made to the Stadium and that the new terms and conditions to extend the Chargers commitment to San Diego until 2020 be approved.

## ALTERNATIVES

Do not authorize: The agreements; the construction of \$60 million in Stadium improvements; a parking user fee; the renegotiation of agreements with Service America and Ace Parking; or the negotiations with the San Diego International Sports Council.

Respectfully submitted,

A handwritten signature in cursive script, reading "Jack McGrory".

JACK MCGRORY  
City Manager

# CERTIFICATE OF PUBLICATION

Financial Managem  
City of San Diego  
202 C Street  
M.S. 8A  
San Diego, CA

92101

IN THE MATTER OF

NO.

Chargers Football Company

I, Corey Donahue, am a citizen of the United States and a of the county aforesaid; I am over the age of eighteen years, and not party to or interested in the above entitled matter. I am the principal clerk of the San Diego Daily Transcript, a newspaper of general circulation, printed and published daily, except Saturdays and Sundays, in the City of San Diego, County of San Diego and which newspaper has been adjudged a newspaper of general circulation by the Superior Court of the County of San Diego, State of California, under the date of January 23, 1909, Decree No. 14894; and the

## NOTICE OF PUBLIC HEARING

is a true and correct copy of which the annexed is a printed copy and was published in said newspaper on the following date(s), to wit:

MAY 19

I certify under penalty of perjury that the foregoing is true and correct.

Dated at San Diego, California this 19th day of

May, 95

Corey Donahue  
(Signature)

### NOTICE OF PUBLIC HEARING

PLEASE ACCEPT THIS AS A NOTICE TO INFORM YOU, as a property owner, tenant, or interested party, that the Council of the City of San Diego, California will conduct a public hearing, as part of a scheduled City Council meeting, on the following project:

Adoption of ordinances; authorizing the 1995 Agreement for Partial Use and Occupancy of the San Diego Jack Murphy Stadium between the Chargers Football Company and the City of San Diego; authorizing the Facilities Use and Occupancy Agreement between the Chargers Football Company and the City of San Diego; authorizing the 1995 Agreement for Partial Use and Occupancy of the Skybox Areas at the San Diego Jack Murphy Stadium between the Chargers Associates and the City of San Diego; and related actions.

#### DATE OF MEETING:

TUESDAY, MAY 30, 1995

#### TIME OF MEETING:

10:00 a.m.

#### PLACE OF MEETING:

COUNCIL CHAMBERS,

12th FLOOR

CITY ADMINISTRATION

BUILDING, 202 "C"

STREET,

SAN DIEGO, CALIFORNIA

#### PROJECT NAME:

1995 AGREEMENT

WITH THE

CHARGERS FOOTBALL

COMPANY & RELATED

ACTIONS

FOR ANY ADDITIONAL INFORMATION, PLEASE CONTACT CITY PROJECT MAN-

AGER:

### MARY VATTIMO at

(619) 236-6639

### COMMUNICATIONS

This item may begin at any time after the time specified. Any interested person may address the City Council to express support or opposition to this issue. Time allotted to each speaker is determined by the chair and in general is limited to two (2) minutes; moreover, collective testimony of those in support or opposition shall be limited to no more than fifteen (15) minutes total per side.

Those unable to attend the hearing may write a letter to the Mayor and City Council, Attention: City Clerk, City Administration Building, 202 "C" Street, San Diego, CA 92101-3862, Mail Station 2A. All Communications will be forwarded to the Mayor and City Council.

This information will be made available in alternative formats upon request. To order information in Braille, oversized print or voice cassette tape, please call the Clerk's office at least five working days prior to the meeting at 533-4000 (voice) or 236-7012 (TT).

CHARLES G. ABDELNOUR  
SAN DIEGO CITY CLERK  
Pub. May 19  
315044